



British Columbia Securities Commission

QUARTERLY AND YEAR END REPORT

BC FORM 51-901F
(previously Form 61)

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ISSUER DETAILS
NAME OF ISSUER: Torq Media Corporation
FOR YEAR ENDED: 04 | 05 | 31
DATE OF REPORT: 04 | 10 | 14
ISSUER ADDRESS: Suite #1600 - 650 West Georgia Street
CITY: Vancouver, PROVINCE: BC, POSTAL CODE: V6B 4N7, ISSUER FAX NO.: 604-683-0646, ISSUER TELEPHONE NO.: 604-683-0020
CONTACT PERSON: Scot Friskey, CONTACT'S POSITION: General Manager, CONTACT TELEPHONE NO.: 604-683-0020
CONTACT EMAIL ADDRESS: Sfriskey@on-track.com, WEB SITE ADDRESS: www.on-track.com

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE: "Russ Rossi", PRINT FULL NAME: Russ Rossi, DATE SIGNED: 04 | 10 | 14
DIRECTOR'S SIGNATURE: "Jim Rosevear", PRINT FULL NAME: Jim Rosevear, DATE SIGNED: 04 | 10 | 14

**Torq Media Corporation**  
(formerly On-Track Learning Systems.)  
FORM 51-901F – QUARTERLY AND YEAR END REPORT  
MAY 31, 2004

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**SCHEDULE A: FINANCIAL INFORMATION**

See attached audited consolidated financial statements for the year ended May, 31 2004

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

1. Analysis of expenses and deferred costs

See attached audited consolidated financial statements for the year ended May 31, 2004

2. Related party transactions

See attached audited consolidated financial statements for the year ended May 31, 2004

3. Summary of securities issued and options granted during the year

a) Summary of securities issued during the year:

<b>Balance at May 31, 2003</b>	<b>13,099,878</b>	<b>\$ 1,516,594</b>
Common shares issued to shareholder at September 11, 2003	655,000	65,500
Common shares issued for Debt Settlement October 6, 2003	1,926,410	192,641
Private Placement @ 5 cents January, 2004	1,400,000	70,000
Common shares issued to shareholder January 17, 2004	300,000	30,000
Common shares issued to shareholder February 11, 2004	129,000	12,900
Common shares issued to shareholder February 13, 2004	160,000	16,000
Common shares issued Re Debt Settlement at March 31, 2004	1,505,079	150,508
<b>Balance at May 31, 2004</b>	<b>19,175,367</b>	<b>2,054,143</b>
<b>Name Changed to Torq Media and 12:1 roll Back</b>	<b>Torq Shares: 1,597,947</b>	<b>2,054,143</b>
Common shares issued re financing June 19th, 2004	652,172	150,000
Common shares issued re financing at September 17, 2004:	2,015,793	282,211
Common shares issued to shareholders at Sep 22, 2004	55,556	10,000
<b>Balance at September 30, 2004</b>	<b>4,321,468</b>	<b>2,496,354</b>

b) Summary of stock options granted during the year:

Options previously granted by On-Track Learning Systems Ltd.	655,000	0.40
Granted - during the year	589,000	0.10
- Expiring May 31, 2005	28,900	0.23
- Expiring October 15, 2005	19,583	1.20
Exercised	(1,244,000)	0.40
Granted & exercised in the year		
<b>Balance, May 31, 2004</b>	<b>48,483</b>	

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### SCHEDULE B: SUPPLEMENTARY INFORMATION (cont'd...)

#### 4. Summary of securities as at the end of the reporting period

a) Description of authorized share capital including number of shares of each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions:

See attached audited consolidated financial statements for the year ended May 31, 2004

b) Number and recorded value for shares issued and outstanding:

See attached audited consolidated financial statements for the year ended May 31, 2004

c) Description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value:

As at May 31, 2004, stock options were outstanding enabling holders to acquire the following number of shares:

<b>Options</b>			
<u>Number of Shares</u>	<u>Exercise price</u>	<u>Expiry Date</u>	
19,583	\$ 1.20	October 15th, 2005	
28,900	\$ 0.23	May 31, 2005	
<hr/>			<b>48,483</b>

At May 31, 2004, warrants were outstanding enabling holders to acquire the following number of shares:

<b>Warrants</b>			
<u>Number of Shares</u>	<u>Exercise price</u>	<u>Expiry Date</u>	
116,666	\$ 1.20	December 29, 2005	
652,174	\$ 0.30	June 31, 2005	
<hr/>			<b>768,840</b>

d) Number of shares in each class of shares subject to escrow or pooling arrangements:

As at May 31, 2004, 626,703 common shares of the Company are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon.

## Torq Media Corporation

(formerly On-Track Learning Systems.)

**SCHEDULE B: SUPPLEMENTARY INFORMATION** (cont'd...)

The common shares held in escrow are in two groups. The original escrow was subject to a 3 year period. The Escrow from the On-Track transaction was subject to a 6 year hold period. There are still 50,000 shares in the 3 years hold group gradually becoming due up until January 2006. There are still 576,703 escrow shares in the 6 year group gradually becoming due up until January 2009. Together these groups make up the 626,703 shares in escrow.

5. Names of the directors and officers as at the date this report is signed and filed

Russ Rossi – Director and President  
Jim Rosevear - Director and Secretary  
Scott Friskey - Director  
Reza Mohammed - Director

**SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

**Description of business**

The Company was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange (“TSX-V”). The Company was classified as a Capital Pool Company as defined under the policies of the TSX-V until it completed its Qualifying Transaction.

On January 9, 2003, the Company acquired all the issued and outstanding shares of On-Track Computer Training Ltd. (“On-Track”) which served as the Company's Qualifying Transaction pursuant to the policies of the TSX-V. Following this transaction, the Company changed its name from Marquette Capital Corp. to On-Track Learning Systems Ltd.

The Company’s principal business activity consists of providing computer training and consulting services.

On April 19<sup>th</sup>, 2004 the Company held an extraordinary general meeting. Pursuant to a special resolution passed by shareholders at that meeting, On-Track Learning Systems consolidated its capital on a 12-old-for-one-new basis. The name of the company was changed to Torq Media Corporation. Effective at the opening May 18, 2004, the common shares of Torq Media commenced trading on the TSX Venture Exchange under the new symbol TQ. The new was CUSIP No.: 891311 102.

**Discussion of operations and financial condition**

During the year ended May 31, 2004, the Company incurred a loss of \$917,425 on revenues of \$690,554. Compared to last year, that is a 10% improvement. Last year the company had nearly 500,000 in “other item” writeoffs. This year the company had less then 10,000 in write-offs in the same area. The company was successful in reducing its Oracle expenses from 566,033 last year to 71,040 this year.

The 2004 year has been a year of restructuring and reorganization. The company has debt settled more than 300,000 of debt in an effort to streamline the balance sheet and the company stock was consolidated 12:1. This year the management spent much time dealing with litigation and disputes. Subsequent to the year end all litigation has been settled. The business has now been streamlined as is structured to grow. Management will now focus on growing revenues in order to leverage the efficiencies of the new structure.

**Torq Media Corporation**

(formerly On-Track Learning Systems.)

## **SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS (cont'd...)**

### **Subsequent events**

a) The following events occurred subsequent to May 31, 2004:

On June 9, 2004, by private placement, 652,173 post-consolidation shares were issued at a price of \$0.23 per share. Of the shares issued, 453,478 shares were issued to significant shareholders.

On July 13, 2004 Torq's subsidiary, On-Track Computer Training Ltd., filed a Notice of Intention to make a Proposal to its creditors. This was not a bankruptcy nor was it a receivership. This Notice of Intention created a Stay of Proceedings and allowed the company to continue "business as usual" while it prepared and filed a proposal for repayment to all of its creditors.

On September 17, 2004, by private placement, 2,015,793 post consolidation shares were issued at a price of \$0.14 per share.

On September 21, 2004 the Company entered into a settlement agreement to end all litigation with which it was involved. The Settlement Agreement resolved all of the outstanding claims by and against it. In making the settlement the Company admitted no liability to any party but chose to resolve these disputes so that it could focus on its core business plan and devote all its resources to its corporate success. As part of the settlement, the Company agreed to pay Secureview (or its nominee) \$80,000 in cash and, subject to TSX approval, \$85,000 in stock at a deemed price of \$.20 (425,000 shares). The issued stock is subject to extra hold provisions. 20% of the stock, 85,000 shares, is subject to a 4 month hold period, 20% to a 5 month hold, 20% to a 6 month hold, 20% to a 7 month hold and 20% to a 8 month hold. The TSX has subsequently approved the settlement. In addition, the Company forgave a \$40,000 accounts receivable owing from Secureview.

On September 22, 2004, employee stock options were exercised to acquire 55,556 shares at a price of \$0.18 per share.

### **Financings, Principal Purposes and Milestones**

In January 2004 (pre-consolidation) the Company completed a non-brokered private placement consisting of 1,400,000 units (116,667 post consolidation) issued at a price of \$0.05 per unit (\$0.60 post consolidation) for gross proceeds of \$70,000. Each unit consisted of one common share and one purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$.10 per share (\$1.20 post consolidation) for a period of one year from the date of private placement.

On June 19<sup>th</sup>, 2004 the Company completed a non-brokered private placement consisting of 652,172 units issued at a price of \$0.23 per unit for gross proceeds of \$150,000. Each unit consisted of one common share and one purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$.30 per share for a period of one year from the date of private placement.

On September 17<sup>th</sup>, 2004 the Company completed a non-brokered private placement consisting of 2,015,793 units issued at a price of \$0.14 per unit for gross proceeds of \$282,211. Each unit consisted of one common share. This issue had no warrants.

The gross proceeds from the above financings went towards expenses of the company including but not limited to working capital, legal fees for litigation, legal fees for the Extraordinary General Meeting and Annual General meeting, filing fees and auditing fees.

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## **SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS (cont'd...)**

### **Liquidity and solvency**

As at May 31, 2004, the Company has a working capital deficiency of \$811,149. However since May 31, 2004 the company has repaid over 250,000 of Notes payable and is currently working with creditors to reduce accounts payable by roughly another \$250,000. This will result in more than a \$500,000 swing in working capital. This will be the second year in a row with significant improvements on working capital year to year.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue as a going concern is dependent on completing equity financings, obtaining support from related parties or generating consistent profitable operations in the future. The Company's consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**TORQ MEDIA CORPORATION**  
**(Formerly On-Track Learning Systems Ltd.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MAY 31, 2004 AND 2003**

**GORDON K.W. GEE**

*Chartered Accountant*

*An incorporated professional*

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Telephone: (604) 689 - 8815 Facsimile: (604) 689 - 8838  
E-mail: gkwg@telus.net

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Torq Media Corporation:

I have audited the consolidated statement of financial position of Torq Media Corporation as at May 31, 2004 and 2003, the consolidated statements of operations and deficit and changes in cash for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2004 and 2003 and the consolidated results of its operations and the changes in its cash for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, I report that, in my opinion, these principles have been applied on a consistent basis.

The comparative amounts presented in these financial statements were examined by another auditor. See note 18 to the Notes to the Financial Statements.

Vancouver, B.C., Canada  
8 October 2004

“Gordon K.W. Gee Ltd.”

Chartered Accountant

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT MAY 31**

	\$ 2004	\$ 2003
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	138,903	193,101
Prepaid expenses and deposits	15,508	96,025
	154,411	289,126
Due from related parties (Note 4)	-	126,801
Property, plant and equipment (Note 5)	69,220	102,769
	223,631	518,696
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness (Note 6)	24,848	17,626
Accounts payable and accrued liabilities	381,425	328,118
Management fees payable	-	74,900
Advances payable (Note 7)	-	150,151
Loans and promissory notes payable (Note 9)	545,655	257,687
Current portion of obligation under capital leases (Note 10)	13,632	13,635
	965,560	842,117
Obligation under capital leases (Note 10)	40,907	54,539
	1,006,462	896,656
<b>SHAREHOLDERS' DEFICIT</b>		
<b>Shareholders' deficiency</b>		
Capital stock (Note 11)	2,054,143	1,516,594
Obligations to issue capital stock	-	25,000
Deficit	(2,836,979)	(1,919,554)
	(782,836)	(377,960)
	223,631	518,696

(see accompanying notes)

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED MAY 31**

	\$ 2004	\$ 2003
<b>REVENUES</b>		
Training	690,554	1,699,305
Support fees	-	30,000
	690,554	1,729,305
<b>EXPENSES</b>		
Accounting and legal	115,322	108,576
Advertising and promotion	121,143	141,807
Amortization	33,549	61,966
Automobile	20,993	31,482
Bank charges and interest	98,466	95,237
Bad debts	24,885	-
Business development	-	44,666
Corporate marketing	-	50,000
E-Learning	-	31,430
Management fees	148,150	76,970
Office and miscellaneous	140,082	172,061
Oracle expenses	71,040	566,033
Regulatory fees	25,770	4,503
Rent	155,386	130,806
Sub-contractors	161,619	150,526
Telephone	21,759	24,307
Travel and entertainment	57,732	118,037
Wages and benefits	403,843	473,124
	1,599,739	2,281,531
<b>Loss before other items</b>	(909,185)	(552,226)
<b>OTHER ITEMS</b>		
Interest income	213	3,075
Loss on settlement of advances payable (Note 9)	(8,453)	(17,500)
Loss on settlement of amounts in dispute (Note 10)	-	(137,000)
Loss on disposal of marketable securities (Note 10)	-	(28,000)
Write-off of due from related parties (Note 4)	-	(285,899)
	(8,240)	(465,324)
<b>Loss for the year</b>	(917,425)	(1,017,550)
<b>Deficit, beginning of year</b>	(1,919,554)	(902,004)
<b>Deficit, end of year</b>	(2,836,979)	(1,919,554)

(see accompanying notes)

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEAR ENDED MAY 31**

	\$ 2004	\$ 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	917,425	1,017,550
Items not affecting cash:		
Amortization	33,549	61,966
Accrued interest on advances payable	-	17,651
Accrued interest on debenture	-	7,195
Accrued interest on due to related party		5,354
Bad debt expense		-
Loss on settlement of advances payable		17,500
Loss on settlement of amounts in dispute		137,000
Loss on disposal of marketable securities		28,000
Write-off of due from related parties		285,899
Changes in non-cash working capital items:		
Accounts receivable	54,198	(6,132)
Prepaid expenses and deposits	80,517	(36,686)
Accounts payable and accrued liabilities	53,307	48,502
Management fees payable	(74,900)	74,900
Deferred revenue	-	(30,000)
Net cash used in operating activities	(770,754)	(406,401)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash acquired on purchase of subsidiary (Note 3)	-	3,943
Purchase of property, plant and equipment	-	(8,203)
Net cash used in investing activities	-	(4,260)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Due from related parties	126,801	(119,339)
Bank indebtedness	7,222	(58,832)
Repayment of debenture	-	(170,250)
Repayment of advances payable	(150,151)	200,000
Due to related parties	287,968	112,333
Capital lease obligations	(13,635)	(4,251)
Issuance of capital stock	537,549	426,000
Obligations to issue capital stock	(25,000)	25,000
Net cash provided by financing activities	770,754	410,661
<b>Change in cash during the year</b>		-
<b>Cash, beginning of year</b>	-	-
<b>Cash, end of year</b>		-
(see accompanying notes)		

**TORQ MEDIA CORPORATION**  
**(formerly On-Track Learning Systems Ltd.)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004**

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Torq Media Corporation (formerly On-Track Learning Systems Ltd.) (the “Company”) was incorporated on September 15, 2000 under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange (“TSX-V”). The Company was classified as a Capital Pool Company as defined under the policies of the TSX-V until it completed its Qualifying Transaction.

On January 9, 2003, the Company acquired all the issued and outstanding shares of On-Track Computer Training Ltd. (“On-Track”), which served as the Company’s Qualifying Transaction pursuant to the policies of the TSX-V (Note 3). Following this transaction, the Company changed its name from Marquette Capital Corp. to On-Track Learning Systems Ltd. On April 19, 2004, the Company changed its name to Torq Media Corporation.

The Company’s principal business activity consists of providing computer training and consulting services.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s ability to continue as a going concern is dependent on completing equity financing, obtaining support from related parties or generating consistent profitable operations in the future. These consolidated financial do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as going concern.

	\$ 2004	\$ 2003
Working capital (deficiency)	(811,149)	(552,991)
Deficit	(2,836,979)	(1,919,554)

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, On-Track. All significant inter-company transactions and balances have been eliminated upon consolidation.

**Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates.

**Foreign currency translations**

The monetary assets and liabilities of the Company dominated in foreign currencies are translated at the

**TORQ MEDIA CORPORATION**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004**

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd....)**

rate of exchange at the statement of financial position date and non-monetary items are translated at historical rates. Revenues and expenses are translated at exchange rates that approximate those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the results of operations.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method:

Automobile	5 years
Computer hardware	3 years
Furniture and fixtures	5 years

**Revenue recognition**

Training revenues are recorded when earned, which is the date students attend a course, and collectibility is reasonably assured. Support revenues are recorded when the related services have been provided and collection is reasonably assured.

**Stock-based compensation**

Effective June 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The new section also permits, and the Company has adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of loss and loss per share as if the fair value method had been adopted. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. This calculation proved to be anti-dilutive for the years presented.

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

**Income taxes**

The Company records income taxes using the asset and liability method. Under the asset and liability

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd....)**

method, future tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider in more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Comparative figures**

Certain comparative figures have been reclassified to conform to the financial presentation used in the current year.

**3. BUSINESS COMBINATION**

Effective January 9, 2003, the Company acquired all the issued and outstanding capital stock of On-Track. As consideration, the Company issued 7,210,000 common shares to the shareholders of On-Track. As part of the transaction, the Company also issued 479,378 common shares to a significant shareholder who is a director and the president of On-Track to settle his shareholder loan \$359,534 (Note 11). The common shares issued will be held in escrow and released over a six-year period. The Company also acquired all the outstanding On-Track share purchase warrants in exchange for issuing 50,000 share purchase warrants which entitle the holders to acquire 50,000 common shares of the Company at an exercise price of \$0.50 per share until July 18, 2003 (expired unexercised).

Legally, the Company is the parent of On-Track. However, as a result of this share exchange, control of the combined companies passed to the former shareholders of On-Track. This type of share exchange, referred to as a "reverse takeover", deems On-Track to be the acquirer for accounting purposes. Accordingly, the deemed acquisition of the Company is accounted for by the purchase method with the net assets of the Company recorded at fair value at the date of acquisition.

The cost of an acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident. In such a case, the fair value of the net assets acquired is used.

The fair value of the net assets acquired was \$125,960.

The total purchase price of \$125,960 has been allocated as follows:

	\$
Cash	3,943
Receivables	7,017
Prepaid expenses and deposits	40,000
Deferred acquisition costs	164,152
	215,112
Less: acquisition costs	(89,152)
	125,960

**TORQ MEDIA CORPORATION**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. BUSINESS COMBINATION (cont'd....)**

The comparative consolidated statements of operations and deficit and cash flows include the results of On-Track from June 1, 2001 and the results of operations and cash flows of the Company from January 9, 2003 (date of acquisition).

The Company also completed the following in conjunction with the acquisition:

- a) The Company completed a non-brokered private placement consisting of 770,000 units issued at a price of \$0.50 per unit for gross proceeds of \$385,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share at a price of \$1.00 per share for a period for a period of one year from the date of completion of the acquisition of On-Track.
- b) The Company issued 553,000 common shares at a value of \$275,000 to Arcas Corporate Management Ltd. ("Arcas") to settle amounts in dispute of \$275,000.
- c) The Company issued 660,000 common shares at a value of \$330,000 to Consensus Investments Limited ("Consensus") to settle a loan payable of \$300,000 plus accrued interest.
- d) The Company issued 350,000 common shares as a finder fee.
- e) The Company paid a non-refundable deposit of \$25,000 to On-Track and advanced On-Track \$75,000 reimbursement of expenses relating to the acquisition. In addition, the Company paid a \$25,000 sponsorship fee and \$39,152 in professional fees. All of the above amounts were recorded as deferred acquisition costs.

**4. DUE FROM RELATED PARTIES**

The amount due from a shareholder at May 31, 2003, of \$126,801, consists of personal expenses paid by the Company on behalf of a significant shareholder who is a director and the president of the Company, is unsecured, non-interest bearing and has no fixed terms of repayment.

**5. PROPERTY, PLANT AND EQUIPMENT**

	\$ 2004			\$ 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automobile	64,052	12,810	51,242	64,052		64,052
Computer Hardware	243,381	238,340	5,041	243,381	223,629	19,752
Furniture and fixtures	72,369	59,432	12,937	72,369	53,404	18,965
	379,802	310,5821	69,220	379,802	277,033	102,769

On May 31, 2003, the Company entered into a capital lease to acquire an automobile primarily for the benefit of a significant shareholder who is a director and the president of the Company.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004**

**6. BANK INDEBTEDNESS**

As at May 31, 2004, and 2003, the Company has a line of credit of \$5,000 bearing interest at prime plus five percent. The line of credit is guaranteed by the assets of the Company.

**7. ADVANCES PAYABLE**

	\$	\$
	2004	2003
Advance from Secureview Systems Ltd. ("Secureview")	-	150,151

*Advance from Secureview*

During the year ended May 31, 2002, On-Track received an advance payable of \$145,000 from Secureview that was unsecured, non-interest bearing with no fixed terms of repayment. In exchange for the advance, On-Track provided a guarantee to Quest Ventures Corp. ("Quest") on a \$100,000 interest bearing promissory note payable by Secureview to Quest.

During the year ended May 31, 2003, On Track and Secureview entered into discussions to convert the advance to a promissory note bearing interest from November 1, 2002 at a rate of 0.5% per month and due January 3, 2004. The guarantee to Quest would remain unchanged.

On-Track and Secureview never executed the proposed promissory note. However On-Track accrued interest of \$5,151 on the advance payable of \$145,000 to May 31, 2003. Subsequent to May 31, 2003, the advance payable and guarantee were settled for shares of the Company (Note 22).

**8. AMOUNTS IN DISPUTE**

As at May 31, 2002, amounts in dispute consisted of advances payable of \$150,000 advanced by Arcas in accordance with terms and conditions defined in a loan agreement. During the year ended May 31, 2002, On-Track was named as a defendant in legal claim regarding this advance. The amount claimed by Arcas was \$271,475 plus interest at the rate of 12.68% per annum or in the alternative 50,000 shares of On-Track with warrants attached. The enforceability of the amount advanced under the loan agreement was disputed by management and therefore, the claim was being defended vigorously by On-Track. Management believed \$94,950 of the amounts in dispute of \$150,000 did not have to be repaid as the \$94,950 represented monies advanced to cover certain expenses of On-Track. Consequently, On-Track filed a counter-claim for specific damages of 494,950 and non-specific damages not currently quantifiable at that time.

On October 18, 2002, On-Track settled the legal claim regarding the amounts in dispute. The settlement required On-Track to issue 55 common shares, which would be exchanged for a total of 550,000 shares in the Company in conjunction with the business combination. On October 28, 2002, On-Track agreed to amend the number of common shares to be issued and exchanged for shares in the Company to 79 and 553,000, respectively. The counter-claim was also dismissed.

In conjunction with the business combination (Note 3), the Company issued 553,000 common shares at a value of \$275,000 to Arcas to settle the amounts in dispute resulting in a loss on settlement of \$125,000.

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Further to the date of the settlement, the Company transferred 400,000 shares of Secureview, previously received by the Company from a related party, with a value of \$12,000 to Arcas resulting in a loss on marketable securities of \$28,000.

A claim has been filed by Oracle Corporation Canada Inc. for \$138,732 plus interest and costs, pursuant to unpaid invoices.

**9. PROMISSORY NOTES PAYABLE**

The Company has the following promissory notes payable.

	\$ 2004	\$ 2003
Promissory notes from third parties, unsecured And bearing interest at 10%	164,900	
Loan from a significant shareholder, unsecured and non- interest bearing		100,000
Promissory note from a significant shareholder, unsecured, bearing interest at 10% per annum	33,661	112,430
Promissory note from a significant shareholder, secured by the assets of the Company and bearing interest at 5% per annum.		45,257
Loan from a significant shareholder, fully secured by the assets of the Company and guaranteed by Torq and bearing interest at 12% per annum.	306,519	
Promissory note from Quest Ventures Ltd., unsecured and be interest at 6.34% per annum.	40,575	
	545,655	257,687

**10. OBLIGATIONS UNDER CAPITAL LEASES**

	\$ 2004	\$ 2003
Payments of approximately \$1,136 per month including interest, due over lease terms expiring through May 2003	54,539	68,174
Less: current portion	(13,632)	(13,635)
	40,907	54,539

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**11. CAPITAL STOCK**

	<b>Number of Shares</b>	<b>\$</b>
<b>Authorized -</b>		
100,000,000 common shares without par value		
<b>Issued -</b>		
Balance at May 31, 2001	100	100
Subdivision of shares ( 6:5:1)	550	-
Subdivision of shares (1:585:1)	380	-
	1,030	100
Balance at May 31, 2002		
Common shares of the Company at January 9, 2003	2,872,500	-
Common shares of On-Track at January 9, 2003	(1,030)	-
Pursuant to business combination (Note 3)	7,210,000	125,960
Settlement of shareholder loan (Notes 3 and 11)	479,378	359,534
Private placement (Note 3)	770,000	385,000
Settlement of amounts in dispute (Notes 3 and 10)	553,000	275,000
Settlement of loan payable (Notes 3 and 9)	660,000	330,000
Finder's fee pursuant to business combination (Note 3)	350,000	-
Exercise of stock options	205,000	41,000
Balance at May 31, 2003	13,099,878	1,516,594
Options exercised	1,244,000	1,244,000
Issued from Debt Settlement	3,431,489	343,149
Issued by private placement	1,400,000	70,000

Issued for services

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Balance at May 31, 2004	9,175,367	2,054,143
<b>Consolidation 12:1</b>	1,597,947	2,054,143

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As at May 31, 2004, 626,703 common shares of the Company are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon. The common shares held in escrow will be released over three and six year periods.

**Consolidation**

Subsequent to the year-end, the Company has undergone a consolidation of shares, exchanging twelve (12) old shares for one (1) new share.

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**11. CAPITAL STOCK (Continued...)**

**Stock options**

During the year ended May 31, 2004, the Company has a stock option plan (the "Plan") to grant options to employees, officers, directors and consultants of the Company. Stock option transactions are summarized as follows:

	Number Of Options	Weighted Average Exercise Price
Balance, May 31, 2003		
Options previously granted by On-Track Learning Systems Ltd.	655,000	0.40
Granted - during the year	589,000	0.10
- Expiring May 31, 2005	28,900	0.23
- Expiring October 15, 2005	19,583	1.20
Exercised	(1,244,000)	0.40
Granted & exercised in the year		
Balance, May 31, 2004	48,483	
Weighted average fair value of options granted during the year		0.15

**Stock-based compensation**

During the current year, the Company granted options to a significant shareholder who is a director and the president of the Company. Had the compensation expense relating to the options granted been accounted for under the intrinsic value-based method been recognized on the basis of the fair value, loss and loss per share would have been adjusted as follows:

	\$ 2004	\$ 2003
Loss for the year		
As reported	(925,109)	(1,017,550)
Pro-forma	(925,836)	(1,115,800)
Basic and diluted loss per share		
As reported	0.58 post consolidation	(0.11) pre consolidation
Pro-forma	0.58 post consolidation	(0.12) pre consolidation

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model.

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**11. CAPITAL STOCK (Continued...)**

The assumptions used in calculating fair values are as follows:

	\$ 2004	\$ 2003
Risk-free interest rate	4.00%	4.00%
Expected life of options	1 to 1.5	3 years
Expected volatility	50%	50%
Expected dividend yield	0.0%	0.0%

## Warrants

At May 31, 2004, warrants were outstanding enabling holders to acquire the following number of shares:

Number of Shares	Exercise Price	Expiry Date
116,666	\$ 1.20	December 29, 2004
652,174	0.30	June 30, 2005

## 12. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these notes to the financial statements, the following transactions occurred:

A relative of a significant shareholder was paid \$4,000 in professional contract fees.

A company with a common shareholder was paid \$1,104 in accounting fees.

A company owned by a significant shareholder was paid \$202,262 for management fees, automobile, telephone, travel and other office expenses.

## 13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	\$ 2004	\$ 2003
Loss for the year	(925,109)	(1,017,550)
Expected income tax recovery	384,973	382,599
Non-deductible expenses and items for tax purposes	(60,572)	(58,198)
Unrecognized benefit of non-capital losses	(324,401)	(324,401)
Total income taxes	-	-

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## 13. INCOME TAXES (Continued...)

The significant components of the Company's future income taxes assets are as follows:

	\$ 2004	\$ 2003
Future income tax assets		
Capital assets	102,661	35,563
Non-capital loss carry forwards	677,928	677,928
Valuation allowance	780,589 (780,589)	713,491 (713,491)
Net future income tax assets	-	-

The Company has non-capital losses of approximately \$2,498,000 available for deduction against future taxable income. These losses, if not utilized, will expire commencing in 2004. Future tax benefits, which may arise as a result of these non-capital losses, have not been recognized in these consolidated financial statements and have been offset by a valuation allowances.

#### 14. COMMITMENTS

The Company is committed to future annual operating lease payments for its office premises as follows:

	\$
2005	98,310
2006	105,877
2007	112,336
2008	47,790

#### 15. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of accounts receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities, advances payable, due to related party and obligations under capital lease. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

##### Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectibility of accounts receivable. The Company mitigated credit risk through standard credit and reference checks.

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#### 16. SEGMENTED INFORMATION

The Company operates in one reportable segment, providing computer training and consulting services, in Canada.

#### 17. SUBSEQUENT EVENTS

In addition to other subsequent events disclosed previously in these notes to the financial statements, the following are additional events occurring subsequent to the year-end:

Subsequent to the year end the Company changed its name from On-Track Learning Systems Ltd. to Torq

Media Corporation.

On June 9, 2004, by private placement, 652,173 post-consolidation shares were issued at a price of \$0.23 per share. Of the shares issued, 453,478 shares were issued to significant shareholders.

On July 13, 2004 Torq's subsidiary, On-Track Computer Training Ltd., filed a Notice of Intention to make a Proposal to its creditors. This was not a bankruptcy nor was it a receivership. This Notice of Intention created a Stay of Proceedings and allowed the company to continue "business as usual" while it prepared and filed a proposal for repayment to all of its creditors.

On September 17, 2004, by private placement, 2,015,793 post consolidation shares were issued at a price of \$0.14 per share.

On September 21, 2004 the Company entered into a settlement agreement to end all litigation with which it was involved. The Settlement Agreement resolved all of the outstanding claims by and against it. In making the settlement the Company admitted no liability to any party but chose to resolve these disputes so that it could focus on its core business plan and devote all its resources to its corporate success. As part of the settlement, the Company agreed to pay Secureview (or its nominee) \$80,000 in cash and, subject to TSX approval, \$85,000 in stock at a deemed price of \$.20 (425,000 shares). The issued stock is subject to extra hold provisions. 20% of the stock, 85,000 shares, is subject to a 4 month hold period, 20% to a 5 month hold, 20% to a 6 month hold, 20% to a 7 month hold and 20% to a 8 month hold. The TSX has subsequently approved the settlement. In addition, the Company forgave a \$40,000 accounts receivable owing from Secureview.

On September 22, 2004, employee stock options were exercised to acquire 55,556 shares at a price of \$0.18 per share.

## **18      COMPARATIVES**

Some of the comparative amounts have been reclassified to conform with the financial presentation used in the current year.

The comparative amounts presented in these financial statements were examined by another Chartered Accountant.